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SUBJECT: IMPACT OF RISING FOOD/COMMODITY PRICES - UNITED ARAB EMIRATES

REF: State 39410

¶11. Summary: UAE imports 90 percent of its agricultural and food product needs. Food prices over the last few years have increased in a range around 20 percent. Overall inflation in the UAE is around 10 percent annually. The UAE Ministry of Economy (MoE) has taken steps to curb prices of basic goods, including simplifying imports of 15 food items, coordinating with supermarkets to freeze prices of specified staple food items, establishing a consumer protection office, and reportedly developing a national strategy to build sustained food reserves. However, these measures have not been effective enough to curb soaring prices of basic staples. End Summary.

Main Food Consumption Goods

¶12. Except for fish, UAE imports an estimated 90 percent of its food and agricultural needs, either for further processing or for direct consumption. Leading imports include meat, chicken, fish, vegetables, fat, cooking oil, eggs, rice, tea, coffee, sugar, canned food, milk, flour, bread, yogurts, cheese and beverages.

Inflationary Pressure

¶13. The inflation rate in UAE hit a 19-year high of 9.3 percent in 2006, and reached over 10 percent in 2007; most analysts forecast 2008 inflation in the 8-10 percent range. (Note: Union Bank of Switzerland is estimating inflation at 11.6pp for 2008, with food costs representing a full percentage point, and housing contributing 8.1pp of the total. End Note.) The Consumer Price Index (CPI) relative weight for foodstuffs, beverage and tobacco in UAE is 14.43 percent, in comparison to 36.14 percent for house rent and related housing costs. Between 2003 and 2006, food inflation increased nearly 20 percent according to MoE statistics and preliminary estimates point to a significant increase in 2007. Asian bans on rice exports have been particularly problematic for the UAE in light of the high per capita rice consumption. The UAE's peg to the dollar has also contributed to the cost of importing food, according to local importers. Despite an increase in food prices there has been no discernable shift in consumption toward alternative goods as many residents in the UAE enjoy high per capita income and a majority of lower income consumers are fed directly as part of their employment arrangements.

Impact on the Market and Government Policies

¶4. The MoE, in coordination with cooperative societies and UAE-based cooperative supermarkets, has been taking measures since 2006 to curb prices of food goods. In August 2006, MoE eliminated exclusive agency agreements on 15 essential food items, enabling importers to source directly from suppliers rather than local distributors. The goods included dry milk, condensed milk, frozen and canned vegetables, children's food, child milk, chicken, cooking oil, rice, flour, fish products, meat products, tea and coffee. In March 2008, the Union Co-Operative Society in UAE moved to prevent small grocery stores from bulk-buying of certain items. The MoE has signed agreements with four of the seven emirate cooperative societies to freeze the prices of certain essential goods. In addition, two hypermarkets have agreed to hold prices of a handful of basic foodstuffs at 2007 levels. The MoE has also posted UAE-wide limits on prices of key food items and is levying fines of USD 2,750 on retailers who exceed posted prices. It is not clear how widespread the imposition of fines has been, but many retailers report having to justify certain price increases to the government.

¶5. In March 2008, Jamal Al Saeedi, Executive Director of the Emirates Society for Consumer Protection, told the media that the UAE Cabinet was studying a proposal to allow UAE nationals to buy rice, bread, tea, sugar, milk, butter and other basic food items at cost, and the UAE Ministry of Social Affairs would provide nationals with cards to use at 16 cooperative supermarkets to be eligible for the discount. The proposal is reportedly still under review.

¶6. Food safety and animal health issues have also contributed to the higher cost of foods as avian flu findings among regional suppliers have led to import restrictions on eggs and poultry. Nevertheless, the UAE Higher Consumer Protection Committee, in its meeting on February 6, 2008, rejected poultry company requests to increase the price of table eggs by 15 to 20 percent and chicken by 25 to 37 percent. The Committee decided that the increase in prices should

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not exceed 10 percent for table eggs and 12 percent for fresh slaughtered chicken.

¶7. Retailers can offset the cost of freezing certain prices through listing fees, supplier concessions, and higher prices on other food items. However, local distributors who handle the importation and storage of a significant percentage of UAE food supplies find themselves squeezed between rising global prices and the MoE price mandates. A number have indicated that they may be forced to reduce stocks rather than absorb losses. The MoE has reportedly stated that it will penalize distributors who reduce stocks, but it is not clear how effective this policy will be in the face of rising food prices in supplying countries. (Comment: In discussions with the Head of the MoE's Consumer Protection Unit, it appears that the UAEG is struggling to reconcile the realities of market-driven price increases with the desire to control prices through punitive measures. End Comment.) On April 24, 2008, UAE Minister of Economy Sultan bin Saeed Al Mansouri announced that the UAEG will begin work on a national strategy to build sustained food reserves to cope with rising global food prices. In addition, the MoE also chairs a newly-formed 26 member consumer protection body made up of both private sector and government representatives who will review matters related to rising food costs and general inflation, and other consumer-related issues.

Public Protest

¶8. There have been no public protests or violence related to food prices except for various labor strikes protesting low salaries in general.

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